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BANK OF AMERICA

Economic Outlook California 1983

Overview

November 1982

California's economic recovery will be under way in 1983—but it will be weak by historical standards. Growth of the inflation-adjusted Gross State Product (GSP) is expected to be between 1.4 and 2.4 percent, in contrast with 1982's estimated decline of 1.2 percent. (See Figure 1.) Previous recoveries have been much more vigorous. For example, the California economy expanded 6.8 percent in 1976 following the 1974-75 U.S. recession.

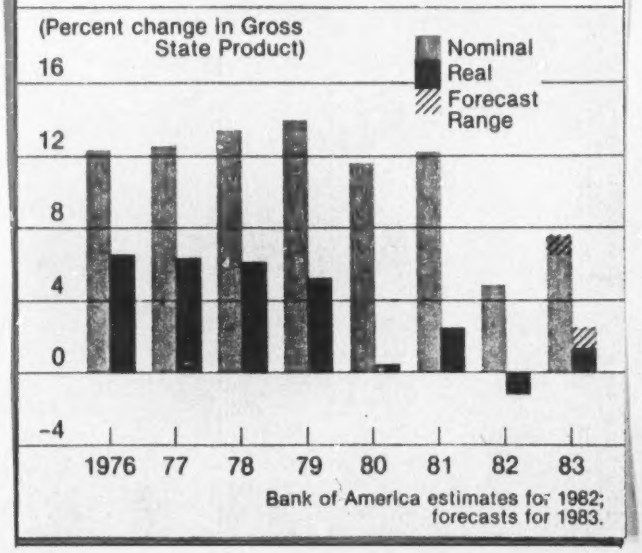
The state's 1983 economic performance will closely match that of the nation, rather than outperforming it as in recent years. The major factors behind the state's slow turnaround include the widespread impact of prolonged high interest rates and continued weakness in sectors that have traditionally given California its relatively greater strength.

The forces that led previous upturns in California —housing and spending by state and local governments—will be relatively weak in this recovery. The residential construction and real estate industries have been battered over the past three years, and only partial recovery is expected in 1983. Severe fiscal crises face most of the state's government entities and they will not be able to provide their customary financial assistance or stimulus for employment. The state government already has taken several steps to reduce expenditures for social programs, government operations, and the maintenance of public facilities and roads. Long term, California's attraction for business investment and its potential for economic growth will be affected by these actions.

California employment, personal income, and retail sales will nonetheless rise modestly in 1983. Employment is expected to increase about 1.6 percent, after stalling in 1982. Renewed gains in income and retail sales will result from the increase in jobs. Relatively low and stable inflation will contribute to the 1983 recovery. The California consumer price index is expected to rise only about 6.2 percent. This moderation will help foster a gradual reduction in interest rates and further increase Californians' real disposable incomes. Additional consumer spending will provide a modest stimulus for business expansion.

The performance of the California economy in 1983 will be influenced by a number of factors, which create considerable uncertainty as to the strength of the recovery. The most optimistic forecast of the state's real GSP growth is based on continued reductions in interest rates, as well as increased consumer confidence contributing to gains in consumer spending and retail sales. However, if it is generally perceived that the Federal Reserve might falter in its inflation-fighting policies, interest rates could be expected to rise, reflecting a loss of confidence on the part of money market participants and renewed inflationary expectations. Also, a continuation of high interest rates could cause the dollar to rise further in value, limiting the stimulative impact of California's international trade sector. Under these conditions, California's interest-sensitive sectors would face continued recession.

FIGURE 1 NOMINAL AND REAL ECONOMIC GROWTH RATES FOR CALIFORNIA 1976-1983



Forces Constraining Growth in 1983

A number of factors combined to make the back-to-back recessions in 1981 and 1982 the longest post World War II period of economic stagnation for both California and the United States. The following factors form the base for the current economic malaise and the forecast for a weak recovery in 1983.

1) The recent prolonged downturn is largely the result of the Federal Reserve's tight monetary policy—designed to combat inflation—that brought about high interest rates and widespread dislocations in the national and state economies. This is in contrast to previous recessions that typically were caused by unsustainable rates of growth in consumer spending. Since late 1979, the Federal Reserve has focused on controlling the money supply rather than interest rates, allowing market forces to determine interest rates.

Although trending downward, interest rates will continue to be volatile, reflecting uncertainty as to the future course of Federal Reserve policy. In addition, prospects of continuing large federal deficits may begin to erode investor confidence.

In this uncertain financial environment, California's interest-sensitive industries will continue to be the hardest hit. Housing and construction—which account for a significant portion of the state's economy—will not be completely revitalized, nor will industries dependent on a vigorous housing market for their own recoveries.

2) Growth rates of other interest-sensitive industries, particularly durable goods manufacturing, will also be slow due to volatility in interest rates and uncertainties in financial markets. Capital spending by businesses will generally be slack. Manufacturing industries are currently operating at about 70 percent capacity. Substantial expansion of production will be necessary before full utilization occurs and new investment in plants and equipment is required.

Moreover, California's service-based economy has matured in recent years. Increases in service employment will, therefore, not provide the strong impetus for growth as in earlier recoveries.

3) The lagging effects of 1982's business liquidity crisis will further inhibit a meaningful and sustained recovery in 1983. Businesses need to fully reliquify their balance sheets by reducing inventories and marginal expenditures, repaying or restructuring debts, and reducing surplus employment. Unfortunately, efforts to reliquify in 1982 have been incomplete. The process of reliquification, which began in the first half of 1982, typically lasts four to eight quarters. Consequently, there is still about a year to go before California businesses improve their financial situations enough to fuel significant expansion.

4) International trade flows are expected to increase 11.3 percent in 1983, considerably more than the 1982 advance. However, trade growth may be somewhat constrained by protectionist measures that are gaining force throughout the world. As the nation's prime exporting state, California will be particularly vulnerable to any reduction in trade flows.

5) For California's state and local governments, the high cost of borrowing in conjunction with voter-imposed reductions in revenues is proving especially restrictive. Governments are not only precluded from contributing to economic recovery, they cannot currently finance the revitalization of the public infrastructure, such as roads and mass transportation.

TABLE 1 SELECTED ECONOMIC INDICATORS FOR CALIFORNIA 1981-1983

	1981	1982	1983
	(Percent change)		
Real Gross State Product	2.5	-1.2	1.4-2.4
Inflation	10.8	6.0	6.2
Retail Sales	7.8	1.0	8.0
Personal Income	12.5	8.2	10.0
Labor Force	1.7	2.7	1.4
International Trade	9.7	6.6	11.3
Total Employment	1.1	0.0	1.6
Housing Starts	-27.0	-36.8	33.3
	(Percent of work force)		
Unemployment Rate	7.4	9.8	9.6

Bank of America estimates for 1982; forecasts for 1983.

California Employment—Some Gains Expected

Total employment in California is expected to advance approximately 1.6 percent in 1983. This increase is sharply lower than the 4.6 percent average gain recorded during the 1976-80 period, preceding the start of the prolonged economic slowdown. Nonetheless, the modest 1983 gain is an improvement over 1982 when total employment remained static. In the aggregate, about 175,000 new jobs will be created in California during 1983.

The largest gains in employment will occur in the state's service sector, which will expand by about 90,000 jobs. Wholesale and retail trade will contribute about 50,000 new jobs. Manufacturing employment will be up about 25,000 jobs, about half of this increase in the aerospace industry. Other sectors including finance, insurance, and real estate will account for about 40,000 new jobs.

Offsetting these gains will be a drop of approximately 10,000 jobs in construction, as the decline in nonresidential construction employment exceeds modest job growth in residential building. In addi-

tion, local and state governments will pare staffs by 20,000 more employees as part of their response to the 1983 fiscal crises. California's agricultural employment level will be virtually unchanged.

Unemployment is expected to decline from 9.8 percent in 1982 to 9.6 percent, with this slight drop tied to the very slow recovery expected for the state. More job seekers will become discouraged and stop looking for work; thus, the labor force will grow by only 1.4 percent, following 1982's 2.7 percent increase. State population growth will remain at 2.1 percent, about the same as in 1982, unless Mexican inmigration is greatly accelerated.

The service category will surpass wholesale and retail trade as California's largest employment sector in 1983. Combined, these sectors will account for nearly five million jobs in the state. The third largest employment category, manufacturing, will provide almost two million jobs.

Both California and the United States are evolving toward service economies. Over the past decade, a marked convergence has occurred in the employment structures of the state and nation. During this period, manufacturing employment has decreased as a percentage of total employment, while the percentage of employment in services has risen dramatically in both California and the nation. (See Table 2.)

TABLE 2 MAJOR EMPLOYMENT CATEGORIES CALIFORNIA AND U.S. 1970 AND 1983

	California		U.S.	
	(Percent of total employment)			
	1970	1983	1970	1983
Agriculture	3.5	3.2	4.4	2.6
Construction	3.8	3.3	4.3	3.8
Finance, Insurance, and Real Estate	4.7	6.1	4.4	5.4
Government	17.8	15.4	15.2	15.5
Manufacturing	19.4	17.7	23.4	18.4
Services	15.8	21.8	14.0	19.3
Trade	19.1	21.6	18.2	20.7

Bank of America forecasts for 1983.

This convergence in employment structures may temper California's traditionally superior economic performance. It has been argued in the past that California was able to outperform the nation's economy because it was less reliant on manufacturing activities, and benefited from its large and stable service sector. As the nation's employment structure converges with that of California, the future economic performances of the state and nation may be less disparate.

Moderate Inflation Continues

One of the most positive developments expected for 1983 is the continued moderation of inflation. Inflation, as measured by the consumer price index (CPI), is forecast to rise 6.2 percent—slightly above the rate recorded in 1982. Underlying inflation is slowly being reduced and continued success is expected. Generally, disinflation, not deflation, has been occurring, however. Deflation takes place when prices actually fall; disinflation, when the rate of increase abates. Since 1930, on a year-over-year basis, deflation in California and the nation has occurred in only eight years—1930-33, 1938-39, 1949, and 1955.

Price increases in 1983 will not be evenly distributed across all categories. (See Table 3.) Depending on the makeup of an individual's "basket of goods," the ongoing effects of disinflation will be felt in varying degrees.

TABLE 3 INFLATION RATES IN CALIFORNIA BY CATEGORY 1980-1983

	(Percent change from prior year)			
	1980	1981	1982	1983
Food	8.8	6.0	5.0	5.0
Clothing	3.3	2.2	-3.0	-3.7
Housing	13.7	11.0	6.4	6.4
Transportation	10.7	12.7	7.4	7.4
Entertainment	11.3	5.5	6.0	6.0
Medical Care	11.5	18.2	12.0	12.2

Bank of America estimates for 1982; forecasts for 1983.

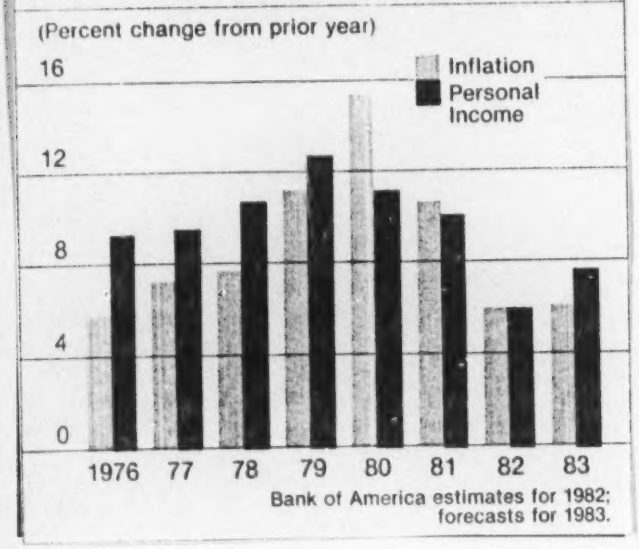
Since 1980, considerable disinflation has occurred in housing. For 1983, continued moderation in house price increases is expected. Transportation costs also have moderated since 1981 with stabilization in the prices of gasoline and automobiles. The weak recovery in 1983 will ensure continued moderation.

Elsewhere, modest disinflation is expected in the costs of food and entertainment. Actual deflation has occurred in the cost of clothing. Prices fell in 1982 and will decline further in 1983. Disinflation brought the rise in costs for medical care and services to 12 percent in 1982—down from 18 percent in 1981. For 1983, medical costs are again expected to increase about 12 percent.

Disinflation, which has occurred in California since early 1981, fosters the growth of real disposable incomes. In 1980, inflation surged above gains in per capita income. The difference dropped in 1981, and both measures are expected to increase equally in 1982. In 1983, however, gains in per capita

income are forecast to outdistance the rise in inflation. (See Figure 2.) Higher incomes are expected to generate modest increases in consumer spending, helping to stimulate the recovery.

FIGURE 2 CALIFORNIA RATES OF INFLATION AND PER CAPITA INCOME GROWTH 1976-1983



The negative side of this period of disinflation is its impact on businesses. Many companies are caught in a cost-price squeeze, with product prices rising more slowly than the costs of production. In a period of disinflation, it is more difficult for increased production costs to be passed on to buyers.

However, the longer inflation is held down the sooner expectations of more inflation will be reduced—leading to a decline in longer term interest rates. Such reductions are needed to stimulate business investment and to sustain economic recovery. Lower interest rates will of course benefit business in California. Further, declines in interest rates will stimulate sales of housing and durable goods, which depend on availability of moderately priced credit.

Residential Housing and Real Estate

California's residential real estate industry will begin a slow recovery in 1983 from difficulties experienced during the past several years. Companies in most sectors of the industry will enter 1983 in very poor financial condition. Consumers' financial capability and confidence also have eroded significantly, and they will be slow to buy houses. As a result, there will be considerable caution exercised both in housing construction and purchase.

However, new residential construction as well as sales of existing homes will improve over the extremely low 1982 levels. About 80,000 new houses will be built, a 33 percent increase from 1982. Approximately 300,000 existing houses—a gain of 33 percent—will be sold in California. Although these levels are anemic compared with average levels of new construction and housing sales in the 1970s, they at least represent the beginning of recovery. (See Table 4.)

A more rapid expansion of new construction is not expected for several reasons. First, builders will have to sell off existing inventories of houses before a greater surge in construction can begin. An unsold inventory of at least 50,000 units has persisted throughout 1982 and a large, but somewhat reduced, inventory will overhang the market during 1983.

Second, large percentages of California builders and subcontractors were forced out of business in 1982, and the financial condition of the survivors has been weakened severely. Thus, a quick turnaround is not likely in 1983. Third, while interest rates are expected to decline, they will not drop sufficiently to help push new construction to its historic levels. With mortgage rates expected to average about 12 percent in 1983, the cost of home building and buying will continue to be relatively high.

Sales of existing houses also will be restrained by the combined impact of relatively high mortgage rates and the high price of housing. The median price for a house in California is now $110,000, compared with the national median of $68,000. While interest rates are falling and home prices are rising more slowly, California households need to earn approximately $35,000 annually to qualify for the purchase of a median-priced home, with a 20 percent down payment. Even though conditions will improve, many people, especially first-time buyers, will continue to find purchasing a house difficult.

TABLE 4 HOUSING STARTS AND RESALES IN CALIFORNIA 1975-1983

	New Construction	Resales
	(Number of units)	
1975	120,000	248,000
1976	196,000	307,000
1977	251,000	354,000
1978	229,000	349,000
1979	197,000	352,000
1980	130,000	464,000
1981	95,000	332,000
1982	60,000	225,000
1983	**80,000**	**300,000**

Bank of America estimate for 1982; forecast for 1983.

Additionally, the prevailing broad differences among mortgage instruments will inhibit the resale market. In 1983, most lenders will offer a variety of mortgage instruments. Adjustable-rate and short-term fixed-rate mortgages will proliferate, while growing equity and graduated payment mortgages will be used more widely. The traditional 30-year fixed-rate mortgage will be available on a limited basis.

Underwriting standards and terms on individual mortgage loans are likely to differ widely among lenders. As a result, consumers will be faced with an array of mortgage rates, loan-to-value ratios, indexes, payment caps, negative amortization features, and balloon payment options. Until market forces impose more uniformity on adjustable-rate mortgage instruments, and fixed-rate instruments with medium- and long-term maturities become more abundant, house resales will be constrained.

Another inhibitor of recovery is the declining investment potential of California residential housing. Not only have nominal house price increases slowed, but favorable financing carried by sellers has covertly reduced the rate of growth in effective prices. In 1982, if favorable financing is taken into account, California house prices actually declined slightly. Buyers perceive the investment and inflation hedge of real estate to be declining. As a consequence, demand for housing as an investment will not be as vigorous as in the 1970s.

The demand for houses as shelter will also be modest in the 1980s because the "need" for housing will decline. People have changed their behavior with regard to housing needs. More people rent houses and apartments now than in the recent past. Also, the median home-buying age has been rising and will continue to do so. Consequently, traditional measures of demand based on household formations do not hold for the 1980s. As households seek other arrangements for shelter, the growth in effective demand for houses will be less than could be expected based on population growth and rates of household formation. Any softening of demand growth suggests that the rate of house price appreciation will also grow more slowly.

In 1983, nominal prices are expected to increase only about 6 percent, slightly below the rate of inflation. This marks the third straight year of decline in the real (inflation-adjusted) median house price. California house prices increased much more rapidly in the 1970s than in the nation as a whole. In 1982 and 1983, however, house prices nationally will rise faster than in the state. (See Table 5.) By 1990 the gap between prices in the U.S. and California should be very small. In fast growing states like Texas, Georgia, and Louisiana, increases are projected to be well above those in California in 1983 and beyond.

Over the long haul, this slower price appreciation would be a very positive development for the California economy. As the gap narrows between house prices nationally and in California, two positive trends will result. First, housing will become more affordable for individuals, and the percentage of people owning their own homes will begin to increase. Currently, only 56 percent of Californians own a home, compared with about 65 percent of the population nationwide. Second, with housing more affordable, firms will find it easier to attract employees. Consequently, the pressure on companies to locate outside of California will diminish.

TABLE 5 MEDIAN SALES PRICES FOR EXISTING SINGLE-FAMILY HOUSES CALIFORNIA AND U.S. 1976-1983

	California		U.S.	
	Median Price	Percent Change	Median Price	Percent Change
1976	$47,900	—	$38,100	—
1977	61,300	27.9	42,900	12.6
1978	69,800	13.7	48,700	13.5
1979	82,800	18.6	55,700	14.3
1980	98,000	18.3	62,200	11.7
1981	105,200	7.2	66,400	6.8
1982	109,000	3.6	69,000	3.9
1983	**115,400**	**5.9**	**74,100**	**7.4**

Bank of America estimates for 1982; forecasts for 1983.

International Trade—Modest Increase

California is the nation's primary exporting state. The value of its international trade has tripled in the past seven years, totaling more than $65 billion in 1982. As California continues its slow economic recovery in 1983, the state's volume of international trade will record stronger growth than in the past two years. (See Figure 3.)

The value of international trade flowing through California in 1983 is expected to increase by more than 11 percent, compared with gains of about 7 percent in 1982, and 9.7 percent in 1981. This performance contrasts sharply with California's 21 percent average annual trade growth during the last half of the 1970s.

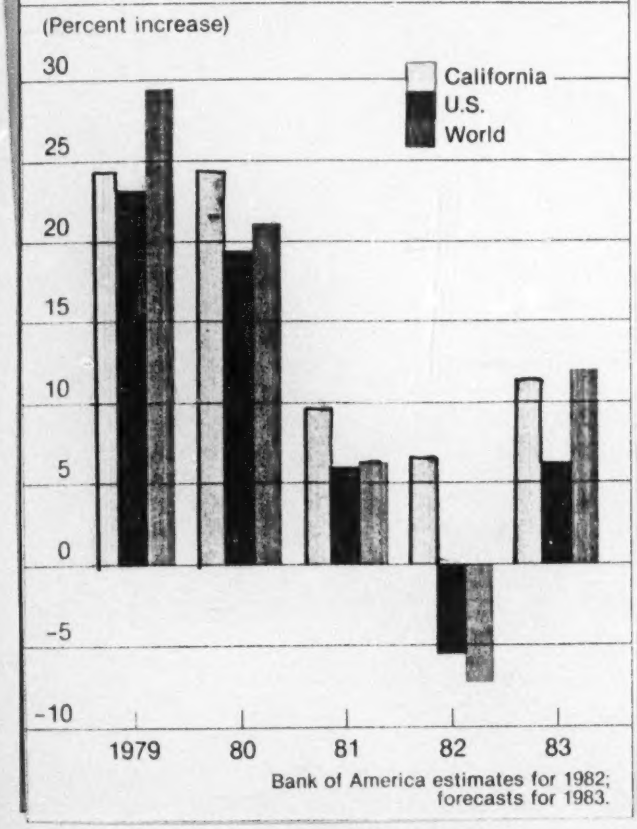
Several factors are operating to prevent trade growth from becoming vigorous. First, the rise in the value of the dollar—caused primarily by high U.S. interest rates—is slowing the growth of exports. U.S. products are less price competitive when paid for in currencies that are undervalued relative to the dollar. Second, trade will continue to be limited by slow economic growth and high unemployment, as well as by continuing—though slowing—inflation,

throughout the world. These factors also are causing trade protectionism to escalate. Currently, protectionism restricts international trade by an estimated 5 percent a year. Further, American firms are increasingly finding themselves in competition with foreign companies that are subsidized by their governments. These governments regard firms capable of exporting as major contributors to domestic employment and thus worthy of subsidization.

International trade currently accounts for approximately one out of every ten private sector jobs in California. Of these, seven out of ten are export related; three are import related. Among the sectors furnishing these jobs are manufacturing, agriculture, and international services, such as banking, engineering, insurance, and export-import companies.

Two-thirds of the products shipped through California originate from or are destined for Asian ports, with Japan representing 50 percent of this trade. Europe is California's second largest trading partner involving a sixth of the state's trade flows, while Latin America and the rest of the world each represents a twelfth of the trade flows. California's leading exports and imports are mechanical equipment, including computers, and electrical machinery. Other major exports are aircraft, cotton, and scientific equipment. Major imports are motor vehicles, crude petroleum, and iron and steel.

FIGURE 3 TRADE GROWTH FOR CALIFORNIA, U.S., AND WORLD 1979—1983



Agriculture—Slight Improvement in 1983

While the weak national economy has negatively affected California agriculture, the situation is expected to improve somewhat in 1983. California agriculture currently suffers from a severe cost-price squeeze and increasing debt burdens caused by increased unit costs and depressed commodity prices. Farmers' ability to deal with the financial strain has been exacerbated by a soft farm real estate market.

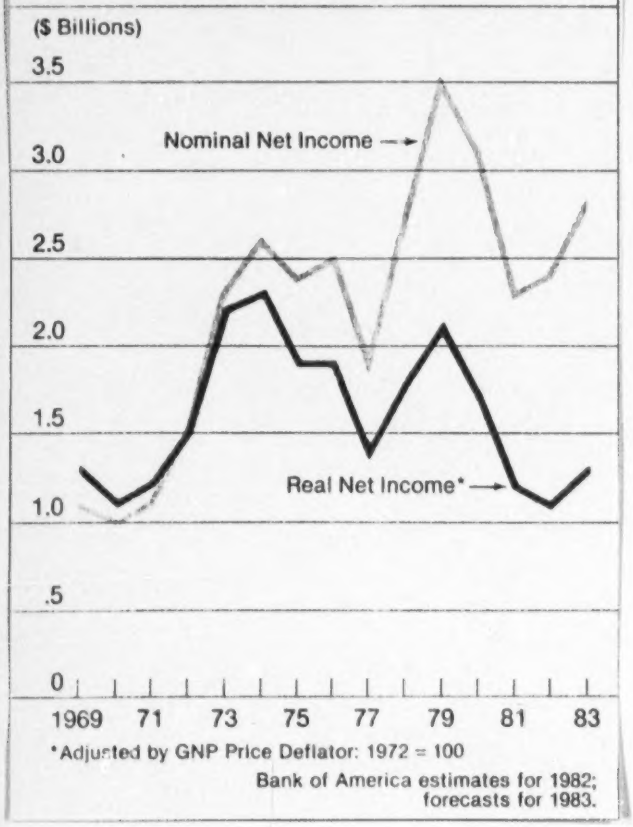
Gross farm income is anticipated to increase only 3 percent, to about $15 billion, due to reductions in planted acreage and minor improvement in commodity prices. However, continued cost-cutting measures by producers and generally lower farm input prices are expected to combine to keep total farm expenses at the 1982 level. In 1983, net farm income is expected to rise about 17 percent from its currently low level, to approximately $2.8 billion. However, this level will still be nearly 10 percent below that recorded in 1980. (See Figure 4.)

Planted acreage in 1983 is expected to decline as a consequence of low commodity prices at planting time, plus the 20 percent acreage reduction required by the federal government for participation in its price support programs for wheat, feed grains, and cotton. These developments are expected to bring about a more rapid realignment of supplies with recession-reduced demand. In addition to setting the stage for higher commodity prices by year-end 1983, the reduction in acreage and lower prices for many farm inputs will help stabilize farm production expenses.

The number of farm loan foreclosures, while proportionally very small, is expected to increase in early 1983 as a consequence of the lack of profitability in 1982. With secondary support for production financing coming from equity in land, some producers will attempt to liquidate land to pay off delinquent debt. Increased land offerings and the potential for distressed sales are expected to cause a temporary decline of up to 5 percent in farm real estate values. Marginal land and acreage with uncertain water supplies will be hardest hit. Prime agricultural land is expected to resist any decline because of the continued strong demand by both domestic and foreign investors. At the same time, rental rates—particularly for less productive land—will drop due to relatively unprofitable farm commodity prices.

Because of the continuing financial difficulties of the farm sector and the anticipated reduction in cultivated acreage, agribusiness-related industries will

FIGURE 4 NET AND REAL NET FARM INCOME FOR CALIFORNIA 1969—1983



*Adjusted by GNP Price Deflator: 1972 = 100

Bank of America estimates for 1982; forecasts for 1983.

likely suffer further declines in sales and employment in 1983. Companies selling new farm equipment, chemicals, and feed are among those most affected. The overall effect will be to further dampen the already reduced economic activity in the state's rural communities.

California's Public Finance Dilemma

One of the most significant developments affecting the future economic growth and vitality of California involves the cumulative cutbacks in expenditures for education and public works in the state. Adequate investment in human resources through education and training is essential for providing the highly skilled work force that will be required in the state's growth industries. These include the brain-powered, high-technology and computer service industries that had their birth in California and are now spreading across the United States. Adequate expenditures on public infrastructure such as buildings, water and sewer systems, roads and bridges, also are vital for continued economic growth. The condition of these facilities plays an important role in commercial and industrial expansion—and the creation of new jobs—in the state.

However, state and local governments have been reducing their expenditures in these important areas despite continued increases in population. California's current state budget, for the fiscal year starting July 1, 1982, is slightly less than for the previous year. In constant dollars, this budget is about 18 percent below that of five years ago. (See Table 6.)

This reduction in both nominal and inflation-adjusted expenditures is undermining California's ability to provide aid to education. As a result of the passage of Proposition 13 in 1978, property tax revenues supporting school districts have been sharply reduced. While the state government has provided "bail-out" funds to help make up for these lost revenues, competing demands for limited state revenues have made it increasingly difficult to maintain this funding.

A decade ago, California ranked thirteenth in the nation in the proportion of personal income spent on education. However, by the school-year 1980-81, the state had slipped to forty-eighth place. California's expenditures per pupil in constant dollars have dropped from $1,823 in fiscal year 1978-79 to $1,598 in fiscal year 1982-83, a decline of more than 12 percent. The state's elementary and secondary schools now have one of the nation's highest pupil-to-teacher ratios.

Schools cannot look to the state government for large amounts of additional funding. The state's revenues will shrink by an estimated $1.15 billion in fiscal year 1983-84, unless a strong economic recovery or a tax increase—or both—occur. The recent voter initiatives to abolish the state inheritance tax and permanently index the income tax will result in a

TABLE 6 CALIFORNIA STATE GOVERNMENT NOMINAL AND REAL EXPENDITURES FISCAL YEARS 1975-76 to 1982-83*
($ Billions)

Fiscal Year	Nominal	Inflation-Adjusted	Real Percent Change
1975-76	$11.5	$11.5	—
1976-77	12.8	12.1	5.2
1977-78	14.5	12.8	5.7
1978-79	14.7	12.0	-6.3
1979-80	16.3	11.9	-0.8
1980-81	18.5	11.8	-0.8
1981-82	19.5	11.3	-4.2
1982-83	**19.2**	**10.4**	**-8.0**

*Excludes bail-out funds.

loss of $449 million in fiscal 1983-84. In addition, several one-time measures inflated the 1982 revenues by about $700 million, and these general revenues will not be available in future years.

Local governments find themselves in a more serious situation than the state government. Because of Proposition 13, cities and counties also have lost property tax revenue. In addition, over the past two years, they have seen federal grant assistance slashed and have suffered as the recession reduced sales tax revenue. Since 1977, city and county revenues have declined by about 12 percent in real terms with a corresponding decline in inflation-adjusted expenditures. (See Table 7.)

The ability of California's cities to raise revenues also has been restricted by statewide voter initiatives. The two-thirds voter majority required to impose new taxes has made it difficult for local residents to set new taxes for themselves. For all practical purposes, the use of general obligation bonds—the least expensive means of financing capital improvements—has been ended by the tax-reduction initiatives.

TABLE 7 CALIFORNIA CITY AND COUNTY NOMINAL AND REAL EXPENDITURES FISCAL YEARS 1977-78—1981-82
($ Millions)

	Nominal	Inflation Adjusted	Real Percent Change
1977-78	$13,317.1	$13,317.1	—
1978-79	13,657.9	12,681.4	-4.8
1979-80	14,654.0	12,232.1	-3.7
1980-81	16,571.8	11,982.5	-2.1
1981-82	17,730.0	11,742.0	-2.0

Estimated figures for 1981-82.

These declining revenues and reduced powers come at a time when many local governments need to make massive expenditures to rebuild streets, bridges, and other public works. In addition, many fast-growing urban areas are reaching the capacity limits of their public facilities, especially water and sewer systems, and must expand them to accommodate new growth.

The infrastructure of many California urban areas was built in the boom years following World War II. These older facilities are reaching the end of their usefulness and their capacity is strained as the aging materials begin to fail. Even some facilities built in recent years need repair or replacement because of inadequate maintenance. One of the initial responses to reduced revenues has been the cutback of expenditures on upkeep. In recent years, California has been among the states spending the least on highway maintenance and repair on a per capita basis. A lack of maintenance leads directly to accelerated deterioration of the urban infrastructure.

The price tag for the needed rebuilding and expansion of urban infrastructure is staggering: over $50 billion during the remainder of the 1980s. However, the price of not making these expenditures may be equally high, namely the economic decline of many urban areas in the state. Industries cannot operate, expand, or build new facilities without adequate water and sewer services, or without well-maintained roads and bridges.

If continued economic growth is desired by Californians, the state must foster a favorable business climate that attracts and retains growing industries and companies. An essential element in developing a positive business climate is to ensure adequate investment in public education and in the construction and maintenance of the urban infrastructure. In the future, Californians will have to determine the desired level of investment in these areas and devise strategies to fund this investment.

Bank of America NT&SA, founded in 1904 by A. P. Giannini, has nearly 1,100 branches in California communities and 135 branches and representative offices overseas. As of September 30, 1982, BankAmerica Corporation's consolidated assets were more than $120 billion.

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